Written Testimony of Stephen M. Wolf
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Senate Committee on Commerce, Science and Transportation
June 21, 2000

Chairman McCain, Senator Hollings and Members of the Committee, on behalf of the entire US Airways family, I appreciate the opportunity to be here this morning to discuss the proposed merger between United Airlines and US Airways.

I have been reflecting on the many comments that have been made about this transaction by Members of Congress and others over the past week. I have heard how this endeavor somehow will reduce competition and therefore lead to less service and higher fares. I have heard how it will trigger a wave of other mergers and how it will cost employees their jobs. I have heard how DC Air is not a real carrier and that slots at Reagan National Airport should go not to a new entrant but should be redistributed to existing carriers.

Mr. Chairman, you have a reputation for plain speaking and for going to the heart of a matter regardless of the consequences. If you will allow me, I would like to be similarly direct on the issue before us today.

The hue and cry we have heard – which I am sure has been well-meaning – has been largely anecdotal and when held to the light of day, will

be shown to reflect sincere if misplaced frustration over fares that people perceive to be too high and service that people perceive to be too low. These issues clearly are important, but the central issue before us today is: Will the merger of US Airways and United Airlines benefit consumers?

Mr. Chairman, the fact of the matter is that this merger will bring overwhelming new opportunity and competition to scores of communities across this country by creating significantly expanded service options and greater consumer choice. It will bring new job opportunities and economic growth to these communities and a new competitive vigor to U.S. air carriers as they enter an era of heightened competition in domestic and international air travel.

Mr. Chairman, as a result of this merger:

- **37 communities will gain direct access to the vast United national and international system that they do not have today. Communities like Bangor, Maine; Erie, Pennsylvania; and Asheville, N.C. will instantly experience a major increase in their service options.**

- **For the first time, passengers traveling between 515 city pairs will have a choice of on-line carriers. For example, today, a passenger traveling between Albuquerque and Augusta, Georgia, has a choice only of Delta; between Flint, Michigan and Sacramento, only Northwest; and between Myrtle Beach, South Carolina, and**

Portland, Oregon, only Delta. After this transaction, there will be two choices.

- **4,943 new city pairs will have on-line service for the first time. While many of these involve small communities with limited traffic today, the added opportunity of new service can only mean an increase in the number of passengers choosing to fly. Examples include Bangor, Maine to Anchorage, Alaska; Myrtle Beach, South Carolina to Palm Springs, California; and Fargo, North Dakota to Sarasota, Florida.**

- **103 new flights will be added, almost all of them transcontinental and international, providing our Charlotte hub, for example, with new direct service to Austin, San Antonio and Portland, Oregon as well as new service to Aruba and Barbados, giving it a stronger platform to grow and compete with Atlanta. Philadelphia's already extensive international service will grow with flights to Brussels and Amsterdam.**

- **In the face of the overwhelming presence of foreign carriers serving our markets, this transaction enhances United's competitive position. For example, our hub cities of Charlotte, Philadelphia and Pittsburgh will now be only <u>one stop</u> away from Tokyo, Hong-Kong and Seoul to the west as well as Buenos Aires, Santiago and Sao Paulo to the south. This is an enormous advancement in their patterns of service.**

And, Mr. Chairman, all of this will be done with a job guarantee and all will be done with a two-year fare freeze.

If one steps back and looks at the fare issue, in 1977, just prior to deregulation, more than 240 million people flew on U.S. air carriers. Last year, U.S. carriers carried more than 635 million people. Those numbers alone attest to the widespread availability of <u>affordable</u> air travel.

I well understand that there is no issue as sensitive as air fares and I have seen the charts and graphs Members have displayed over the past week of hearings. Yes, airfares ARE complex today, but this reflects the competitive nature of this industry. Under regulation, we had a simplified fare structure characterized by uniformly high fares. Congress' decision to deregulate led to intense price competition, resulting in an array of fares and greater consumer choice. The reality is that there has been a 44 percent decrease in average fares since 1977, the last year prior to deregulation.

Lower fares are the direct result of the efficiencies and the intense competition built into the far-reaching networks that have been created over the past two decades – efficiencies and competition that would be enhanced by this transaction. And this doesn't even begin to take into account the enormous impact of the Internet in giving consumers instant access to appealingly low fares for an extraordinarily wide array of travel.

There have been suggestions that this industry will move to three or four or five network carriers – a future I for one do not have the wisdom to

predict. But under any of these scenarios, this industry will continue to be characterized by intense competition. In fact, it would be enhanced in other ways beyond network competition. Just as DC Air is a new entrant by-product of the US Airways-United merger, it is inevitable that there would be other opportunities for new entrants and low-fare carriers as gates and other facilities are divested.

These would add to the pool of aggressive carriers that have learned from past failures and today provide an added level of competition – carriers such as America West and Frontier, JetBlue and AirTran, Spirit and Legend and, of course, Southwest, which now is the fifth largest airline in the <u>world</u> in terms of passengers carried and growing rapidly into a national carrier of immense scope with the highest market capitalization of any U.S. carrier.

For US Airways and the customers and communities it serves, this transaction offers an instant solution to the question of long-term competitiveness. US Airways is the smallest of the six major network carriers. Yet we have the highest costs in the industry.

We already have seen what has happened to other mid-sized, mature-cost carriers operating at the beginning of deregulation. Braniff, Eastern, and Pan Am no longer exist and two others, Continental and TWA, exist only after having gone through bankruptcy twice.

In this environment, to provide our consumers with the truly national and global service they demand, we have to join with a partner that has a

more extensive scope, breadth and reach. With a route network that primarily complements ours, a merger with United Airlines is the right thing to do. The result will be more jobs, more growth, and greater economic development for the communities we serve.

And we have taken steps to ensure that US Airways' service to numerous medium and smaller sized cities from our nation's capital would continue through a new entrant carrier, DC Air.

Some have argued that the slots at Reagan National should be put up for auction. This was considered but I firmly believe it would be the wrong solution. Make no mistake about it, history clearly shows that as airlines acquire slots at Reagan National, they use those slots in a way that is most profitable to them. That means serving National from their hub or hometown airports with additional frequencies. If US Airways' slots at Reagan National are redistributed piecemeal to incumbent carriers who will use that access to add more frequencies to Washington from their principal network cities, there will be an abrupt and painful loss of service to smaller communities such as Portland, Maine; Charleston, West Virginia; Columbia, South Carolina, and Burlington, Vermont.

Instead, Bob Johnson, a person of impeccable business credentials, has pledged to continue service to all 43 cities now served from National and to improve it through the addition of more jet aircraft.

In closing, allow me to step back for a moment and reflect upon this business of which I have been privileged to have been a part for more than three decades.

Other than the world of the computer, I can't think of another industry that has been more dynamic and more vibrant than the world of aviation. It is a dynamic business driven by competition and change.

Just as none of us could have predicted 20 years ago that Southwest would be carrying more passengers than all but four other airlines in the world, neither can we judge this latest evolution of the system within the framework of 1980. The aviation marketplace today is global in scope. It demands ease of access to Beijing and Budapest with the same urgency as to Sacramento and Knoxville. The world has never been more interconnected than it is today. Goods and services flow across borders and oceans with speeds and ease unimagined only 20 years ago. If our aviation system is to remain the envy of the world, we must look ahead, further into the 21st Century, not backward.

The enhanced United Airlines will lead the way into that future, bringing with it opportunity for communities all across this nation. At the same time, the nature of its evolution will enhance not only competition among the major networks but also the entry of new carriers that has been one of the key transforming features of the era of deregulation.

Mr. Chairman, we have a unique opportunity, if only we have the courage and wisdom to seize it.

Thank you for allowing me to share my thoughts with you today.